

NORTHEAST COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2007

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Northeast Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education		
(Before September 2006 election)		
Charles Corr	President	2007
Mark Neblung	Vice President	2006
Bill Costello	Board Member	2008
Mary Smith	Board Member	2006
Mark Mahmens	Board Member	2007
Board of Education		
(After September 2006 election)		
Charles Corr	President	2007
Mark Neblung	Vice President	2009
Bill Costello	Board Member	2008
Mary Smith	Board Member	2009
Mark Mahmens	Board Member	2007
School Officials		
Jim Cox	Superintendent	2007
Cindy McAleer	District Secretary/Treasurer	2007
Brian Gruhn	Attorney	2007

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3040

Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Northeast Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Northeast Community School District, Goose Lake, Iowa as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Northeast Community School District at June 30, 2007, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated March 7, 2008 on our consideration of the Northeast Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 32 and 33 are not required parts of the basic financial statements, but are supplementary

information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Northeast Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2006 (which are not presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. -

Nolte, Cornman, Johnson PC

NOLTE, CORNMAN & JOHNSON, P.C.

March 7, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

Northeast Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2007 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$5,501,095 in fiscal 2006 to \$5,692,402 in fiscal 2007, while General Fund expenditures increased from \$5,499,230 in fiscal 2006 to \$5,714,255 in fiscal 2007. This resulted in a decrease in the District's General Fund balance from \$1,393,126 in fiscal 2006 to a balance of \$1,371,888 in fiscal 2007, a 1.5% decrease from the prior year.
- More cash available coupled with better interest rates enabled investment earnings in the General Fund to increase from \$59,110 in fiscal 2006 to \$77,102 in fiscal 2007.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Northeast Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Northeast Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Northeast Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Northeast Community School District Annual Financial Report

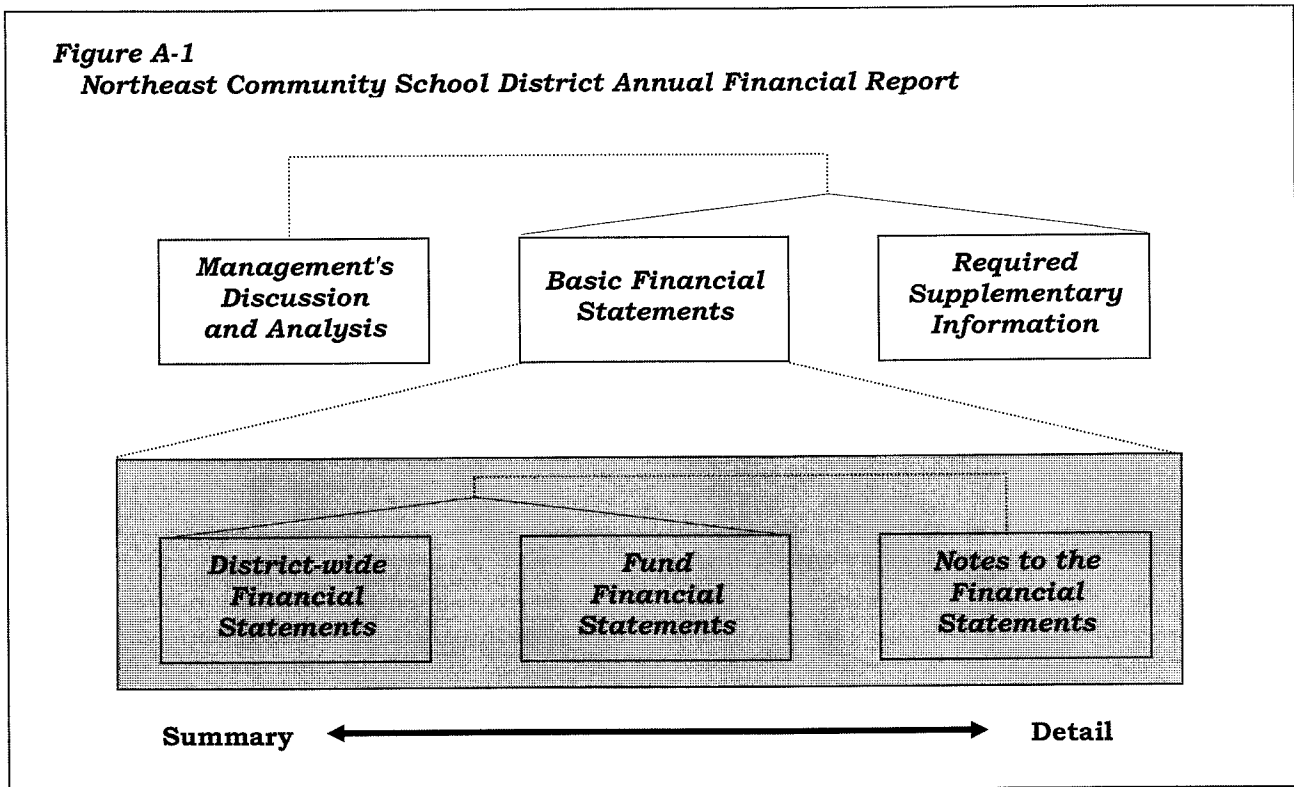


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-wide and Fund Financial Statements			
	District-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of revenues, expenses and changes in net assets • Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has two kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Capital Projects Fund, and the Debt Service Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds*: Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2007 compared to the year ended June 30, 2006.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2007	2006	2007	2006	2007	2006	2006-07
Current and other assets	\$ 4,606,687	4,397,321	73,484	70,096	4,680,171	4,467,417	4.76%
Capital assets	5,612,076	5,715,942	37,316	44,500	5,649,392	5,760,442	-1.93%
Total assets	10,218,763	10,113,263	110,800	114,596	10,329,563	10,227,859	0.99%
Long-term liabilities	2,694,785	3,079,571	0	0	2,694,785	3,079,571	-12.49%
Other liabilities	2,659,605	2,562,021	13,820	15,475	2,673,425	2,577,496	3.72%
Total liabilities	5,354,390	5,641,592	13,820	15,475	5,368,210	5,657,067	-5.11%
Net assets:							
Invested in capital assets, net of related debt	2,932,076	2,716,715	37,316	44,500	2,969,392	2,761,215	7.54%
Restricted	384,423	185,344	0	0	384,423	185,344	107.41%
Unrestricted	1,547,874	1,569,612	59,664	54,621	1,607,538	1,624,233	-1.03%
Total net assets	\$ 4,864,373	4,471,671	96,980	99,121	4,961,353	4,570,792	8.54%

The District's combined net assets increased by 8.54%, or \$390,561, over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represents resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$199,079, or 107.41% over the prior year.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased \$16,695, or 1.03%. This decrease in unrestricted net assets was a result of the District's decrease in the General Fund balance.

Figure A-4 shows the changes in net assets for the year ended June 30, 2007 compared to June 30, 2006.

Figure A-4
Changes of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2007	2006	2007	2006	2007	2006	2006-07
Revenues:							
Program revenues:							
Charges for services	\$ 1,011,684	943,722	153,260	158,332	1,164,944	1,102,054	5.71%
Operating grants and contributions and restricted interest	617,280	560,845	95,051	97,529	712,331	658,374	8.20%
Capital grants and contributions and restricted interest	24,848	0	0	0	24,848	0	100.00%
General revenues:							
Property tax	2,267,341	2,184,090	0	0	2,267,341	2,184,090	3.81%
Local option sales and service tax	443,023	378,082	0	0	443,023	378,082	17.18%
Unrestricted state grants	2,316,186	2,356,066	0	0	2,316,186	2,356,066	-1.69%
Unrestricted investment earnings	89,871	65,782	2,541	1,652	92,412	67,434	37.04%
Other	48,930	54,647	0	0	48,930	54,647	-10.46%
Total revenues	6,819,163	6,543,234	250,852	257,513	7,070,015	6,800,747	3.96%
Program expenses:							
Governmental activities:							
Instructional	3,875,961	3,643,230	0	0	3,875,961	3,643,230	6.39%
Support services	1,954,316	1,985,806	19,143	0	1,973,459	1,985,806	-0.62%
Non-instructional programs	2,901	2,663	233,850	254,269	236,751	256,932	-7.85%
Other expenses	593,283	481,200	0	0	593,283	481,200	23.29%
Total expenses	6,426,461	6,112,899	252,993	254,269	6,679,454	6,367,168	4.90%
Change in net assets	392,702	430,335	(2,141)	3,244	390,561	433,579	-9.92%
Beginning net assets	4,471,671	4,041,336	99,121	95,877	4,570,792	4,137,213	10.48%
Ending net assets	\$ 4,864,373	4,471,671	96,980	99,121	4,961,353	4,570,792	8.54%

In fiscal 2007, property tax and unrestricted state grants account for 67.22% of the revenue from governmental activities while charges for services and operating grants and contributions account for 98.99% of the revenue from business type activities.

The District's total revenues were approximately \$7.07 million of which \$6.82 million was for governmental activities and \$0.25 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced an increase of 3.96% in revenues and a 4.90% increase in expenses. The increase in expenses was related to increases in instructional expenses.

Governmental Activities

Revenues for governmental activities were \$6,819,163 and expenses were \$6,426,461.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2007	2006	Change 2006-07	2007	2006	Change 2006-07
Instruction	\$ 3,875,961	3,643,230	6.39%	2,442,846	2,328,367	4.92%
Support services	1,954,316	1,985,806	-1.59%	1,951,260	1,982,645	-1.58%
Non-instructional programs	2,901	2,663	8.94%	2,901	2,663	8.94%
Other expenses	593,283	481,200	23.29%	375,642	294,657	27.48%
Totals	<u>\$ 6,426,461</u>	<u>6,112,899</u>	<u>5.13%</u>	<u>4,772,649</u>	<u>4,608,332</u>	<u>3.57%</u>

- The cost financed by users of the District's programs was \$1,011,684.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$642,128.
- The net cost of governmental activities was financed with \$2,267,341 in property and other taxes, \$443,023 in local option sales and services tax, \$2,316,186 in unrestricted state grants, \$89,871 in interest on investments, and \$48,930 in other general revenue.

Business-Type Activities

Revenues of the District's business-type activities were \$250,852 and expenses were \$252,993. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Northeast Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$1,764,192, above last year's ending fund balances of \$1,671,501.

Governmental Fund Highlights

- The District's General Fund financial position is the product of many factors. The increase in expenditures was more than the increase in revenues, causing the General Fund balance to decrease.
- The General Fund balance decreased from \$1,393,126 to \$1,371,888, due primarily to increases in instructional expenses.
- The Management Levy Fund balance increased from \$174,373 at June 30, 2006 to \$198,002 at June 30, 2007, representing an increase of 13.5%.

Proprietary Fund Highlights

- School Nutrition Fund net assets decreased from \$99,121 at June 30, 2006, to \$96,980 at June 30, 2007, representing a decrease of 2.2%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$430,442 more than budgeted revenues, a variance of 6.50%. The District received more in local, state, federal and intermediate sources than originally anticipated.

Total expenditures were less than budgeted, primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2007, the District had invested \$5,649,392, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$339,701.

The original cost of the District's capital assets was \$10,518,739. Governmental funds account for \$10,372,806 with the remainder of \$145,933 in the Proprietary, School Nutrition Fund.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2007	2006	2007	2006	2007	2006	2006-07
Land	\$ 116,677	116,677	0	0	116,677	116,677	0.00%
Buildings	4,305,650	4,406,142	0	0	4,305,650	4,406,142	-2.28%
Land improvements	772,119	829,876	0	0	772,119	829,876	-6.96%
Machinery and equipment	417,630	363,247	37,316	44,500	454,946	407,747	11.58%
Total	\$ 5,612,076	5,715,942	37,316	44,500	5,649,392	5,760,442	-1.93%

Long-Term Debt

At June 30, 2007, the District had \$2,694,785 in general obligation and other long-term debt outstanding. This represents a decrease of 12.5% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 5 to the financial statements.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	June 30,		June 30,
	2007	2006	2006-07
General obligation bonds	\$ 2,305,000	2,555,000	-9.8%
Revenue bonds	375,000	495,000	-24.2%
Early retirement	14,785	29,571	-50.0%
Totals	\$ 2,694,785	3,079,571	-12.5%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- Potential substantial increases in gasoline/diesel fuel and propane will impact the District's efforts to control expenditures.
- The October 2006 enrollment was down 37.9 students; however open enrollment continues to increase which creates only a net decrease of three students for total served enrollment.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Cindy McAleer, Business Manager, Northeast Community School District, Box 66, 1450 370th Avenue, Goose Lake, Iowa, 52750.

BASIC FINANCIAL STATEMENTS

NORTHEAST COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2007

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments	\$ 2,080,918	67,485	2,148,403
Receivables:			
Property tax:			
Delinquent	45,997	0	45,997
Succeeding year	2,048,966	0	2,048,966
Income surtax	194,640	0	194,640
Accounts	4,861	0	4,861
Due from other governments	231,305	0	231,305
Inventories	0	5,999	5,999
Capital assets, net of accumulated depreciation (Note 4)	5,612,076	37,316	5,649,392
TOTAL ASSETS	10,218,763	110,800	10,329,563
LIABILITIES			
Accounts payable	103,707	0	103,707
Salaries and benefits payable	495,182	10,163	505,345
Interest payable	11,750	0	11,750
Deferred revenue:			
Succeeding year property tax	2,048,966	0	2,048,966
Unearned revenue	0	3,657	3,657
Long-term liabilities (Note 5):			
Portion due within one year:			
General obligation bonds	255,000	0	255,000
Revenue bonds	125,000	0	125,000
Early retirement	14,785	0	14,785
Portion due after one year:			
General obligation bonds	2,050,000	0	2,050,000
Revenue bonds	250,000	0	250,000
TOTAL LIABILITIES	5,354,390	13,820	5,368,210
NET ASSETS			
Invested in capital assets, net of related debt	2,932,076	37,316	2,969,392
Restricted for:			
Salary improvement program	138	0	138
Additional teacher contract day	1,845	0	1,845
Professional development	14	0	14
Market factor	4,578	0	4,578
Phase II	329	0	329
Management levy	183,217	0	183,217
Physical plant and equipment levy	1,272	0	1,272
Capital projects	128,146	0	128,146
Debt service	21,039	0	21,039
Other special revenue purposes	43,845	0	43,845
Unrestricted	1,547,874	59,664	1,607,538
TOTAL NET ASSETS	\$ 4,864,373	96,980	4,961,353

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

NORTHEAST COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets	
	Charges for Services	Contributions and Restricted Interest	Operating Grants, Capital Grants, and Restricted Interest	Contributions and Restricted Interest	Govern-mental Activities	Business-Type Activities
Expenses						Total
Functions/Programs						
Governmental activities:						
Instruction:						
Regular instruction	\$ 2,490,589	630,986	385,794	0	(1,473,809)	0
Special instruction	704,686	262,649	31,864	0	(410,173)	0
Other instruction	680,686	118,049	3,773	0	(558,864)	0
	3,875,961	1,011,684	421,431	0	(2,442,846)	0
Support services:						
Student services	227,253	0	0	0	(227,253)	0
Instructional staff services	108,100	0	0	0	(108,100)	0
Administration services	578,418	0	0	0	(578,418)	0
Operation and maintenance of plant services	528,256	0	0	0	(528,256)	0
Transportation services	512,289	0	3,056	0	(509,233)	0
	1,954,316	0	3,056	0	(1,951,260)	0
Non-instructional programs	2,901	0	0	0	(2,901)	0
Other expenditures:						
Facilities acquisitions	120,586	0	0	24,848	(95,738)	0
Long-term debt interest	84,921	0	0	0	(84,921)	0
AEA flowthrough	192,793	0	192,793	0	0	0
Depreciation(unallocated)*	194,983	0	0	0	(194,983)	0
	593,283	0	192,793	24,848	(375,642)	0
Total governmental activities	6,426,461	1,011,684	617,280	24,848	(4,772,649)	0
Business-Type activities:						
Support services:						
Administration services	9,597	0	0	0	0	(9,597)
Operation and maintenance of plant services	9,546	0	0	0	0	(9,546)
Total support services	19,143	0	0	0	0	(19,143)
Non-instructional programs:						
Nutrition services	233,850	153,260	95,051	0	0	14,461
Total business-type activities	252,993	153,260	95,051	0	0	(4,682)
Total	\$ 6,679,454	1,164,944	712,331	24,848	(4,772,649)	(4,682)
General Revenues:						
Local tax for:						
General purposes				\$ 1,892,320	0	1,892,320
Debt service				325,130	0	325,130
Capital outlay				49,891	0	49,891
Local option sales and services				443,023	0	443,023
Unrestricted state grants				2,316,186	0	2,316,186
Unrestricted investment earnings				89,871	2,541	92,412
Other general revenues				48,930	0	48,930
Total general revenues				5,165,351	2,541	5,167,892
Changes in net assets				392,702	(2,141)	390,561
Net assets beginning of year				4,471,671	99,121	4,570,792
Net assets end of year				\$ 4,864,373	96,980	4,961,353

* This amount excludes the depreciation that is included in the direct expense of various programs

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

NORTHEAST COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007

	General	Other Nonmajor Governmental Funds	Total
ASSETS			
Cash and pooled investments:	\$ 1,735,758	345,160	2,080,918
Receivables:			
Property tax:			
Delinquent	35,394	10,603	45,997
Succeeding year	1,572,339	476,627	2,048,966
Income surtax	194,640	0	194,640
Accounts	4,861	0	4,861
Due from other governments	188,027	43,278	231,305
TOTAL ASSETS	\$ 3,731,019	875,668	4,606,687
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 96,970	6,737	103,707
Salaries and benefits payable	495,182	0	495,182
Deferred revenue:			
Succeeding year property tax	1,572,339	476,627	2,048,966
Income surtax	194,640	0	194,640
Total liabilities	2,359,131	483,364	2,842,495
Fund balances:			
Reserved for:			
Debt service	0	21,039	21,039
Salary improvement program	138	0	138
Additional teacher contract day	1,845	0	1,845
Professional development	14	0	14
Market factor	4,578	0	4,578
Phase II	329	0	329
Unreserved:			
Undesignated	1,364,984	371,265	1,736,249
Total fund balances	1,371,888	392,304	1,764,192
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,731,019	875,668	4,606,687

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

NORTHEAST COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2007

Total fund balances of governmental funds (page 15)	\$ 1,764,192
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.	5,612,076
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(11,750)
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.	194,640
Long-term liabilities, including bonds payable and early retirement are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(2,694,785)</u>
Net assets of governmental activites (page 13)	<u><u>\$ 4,864,373</u></u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

NORTHEAST COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2007

	General	Other Nonmajor Governmental Funds	Total
REVENUES:			
Local sources:			
Local tax	\$ 1,774,687	917,523	2,692,210
Tuition	860,319	0	860,319
Other	151,763	166,236	317,999
Intermediate sources	36,864	0	36,864
State sources	2,777,706	0	2,777,706
Federal sources	91,063	24,848	115,911
Total revenues	5,692,402	1,108,607	6,801,009
EXPENDITURES:			
Current:			
Instruction:			
Regular instruction	2,425,545	87,364	2,512,909
Special instruction	704,686	0	704,686
Other instruction	544,418	136,268	680,686
	3,674,649	223,632	3,898,281
Support services:			
Student services	227,253	0	227,253
Instructional staff services	108,100	0	108,100
Administration services	585,538	4,473	590,011
Operation and maintenance of plant services	501,980	71,810	573,790
Transportation services	422,133	80,493	502,626
	1,845,004	156,776	2,001,780
Non-instructional programs:			
Community service and other enterprise operations	1,809	0	1,809
Food service operations	0	1,092	1,092
	1,809	1,092	2,901
Other expenditures:			
Facilities acquisitions	0	157,320	157,320
Long-term debt:			
Principal	0	370,000	370,000
Interest and fiscal charges	0	85,858	85,858
AEA flowthrough	192,793	0	192,793
	192,793	613,178	805,971
Total expenditures	5,714,255	994,678	6,708,933
Excess(deficiency) of revenues over(under) expenditures	(21,853)	113,929	92,076
Other financing sources(uses):			
Transfers in	0	129,336	129,336
Transfers out	0	(129,336)	(129,336)
Sale of equipment	615	0	615
Total other financing sources(uses)	615	0	615
Net change in fund balances	(21,238)	113,929	92,691
Fund balance beginning of year	1,393,126	278,375	1,671,501
Fund balance end of year	\$ 1,371,888	392,304	1,764,192

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

Exhibit F

NORTHEAST COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
JUNE 30, 2007

Net change in fund balances - total governmental funds(page 17) \$ 92,691

*Amounts reported for governmental activities in the
statement of activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays, depreciation expense and loss on asset disposal in the year are as follows:

Capital outlays	\$ 281,188	
Depreciation expense	(330,919)	
Loss on asset disposal	(54,135)	(103,866)

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 370,000

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it was due. 937

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. 18,154

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore are not reported as expenditures in the governmental funds, as follows:

Early Retirement	14,786
------------------	--------

Changes in net assets of governmental activities(page 14) \$ 392,702

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

NORTHEAST COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2007

	<u>School Nutrition</u>
ASSETS	
Cash and pooled investments	\$ 67,485
Inventories	5,999
Capital assets, net of accumulated depreciation(Note 4)	<u>37,316</u>
Total assets	<u>110,800</u>
LIABILITIES	
Salaries and benefits payable	10,163
Unearned revenue	<u>3,657</u>
Total liabilities	<u>13,820</u>
NET ASSETS	
Invested in capital assets	37,316
Unrestricted	<u>59,664</u>
Total net assets	<u><u>\$ 96,980</u></u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

NORTHEAST COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2007

	<u>School Nutrition</u>
Operating revenues:	
Local sources:	
Charges for services	\$ 153,260
Operating expenses:	
Support services:	
Administration services:	
Salaries	7,444
Benefits	2,153
Operation and maintenance of plant services:	
Services	9,546
Total support services	<u>19,143</u>
Non-instructional programs:	
Food service operations:	
Salaries	81,124
Benefits	21,998
Services	3,266
Supplies	118,317
Depreciation	8,782
Other	30
Total non-instructional programs	<u>233,517</u>
Total operating expenses:	<u>252,660</u>
Operating loss	<u>(99,400)</u>
Non-operating revenues:	
State sources	3,479
Federal sources	91,572
Interest on investments	2,541
Total non-operating revenues	<u>97,592</u>
Loss before other financing uses:	(1,808)
Other financing uses:	
Loss on asset disposal	<u>(333)</u>
Change in net assets	(2,141)
Net assets beginning of year	<u>99,121</u>
Net assets end of year	<u>\$ 96,980</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

NORTHEAST COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2007

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 152,804
Cash received from miscellaneous operating activities	934
Cash payments to employees for services	(114,352)
Cash payments to suppliers for goods or services	(110,593)
Net cash used in operating activities	<u>(71,207)</u>
Cash flows from non-capital financing activities:	
State grants received	3,479
Federal grants received	69,963
Net cash provided by non-capital financing activities	<u>73,442</u>
Cash flows from capital and related financing activities:	
Purchase of capital assets	<u>(1,931)</u>
Cash flows from investing activities:	
Interest on investments	<u>2,541</u>
Net increase in cash and cash equivalents	2,845
Cash and cash equivalents at beginning of year	<u>64,640</u>
Cash and cash equivalents at end of year	<u>\$ 67,485</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (99,400)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	21,609
Depreciation	8,782
Increase in inventories	(1,043)
Decrease in accounts receivable	500
Decrease in salaries and benefits payable	(1,633)
Decrease in unearned revenue	(22)
Net cash used in operating activities	<u>\$ (71,207)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	<u>\$ 67,485</u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2007, the District received Federal commodities valued at \$21,609.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

NORTHEAST COMMUNITY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2007

(1) **Summary of Significant Accounting Policies**

The Northeast Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the district either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the city of Goose Lake, Iowa, and the predominate agricultural territory in Clinton County. The district is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Northeast Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Northeast Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Clinton Counties Assessors' Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental and proprietary funds, even though the latter are excluded from the Government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The District reports the following nonmajor proprietary fund:

The District's proprietary funds are the Enterprise, School Nutrition Fund. The School Nutrition Fund is used to account for the food service operations of the District.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to

customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Balances

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the Government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2005 assessed property valuations; is for the tax accrual period July 1, 2006 through June 30, 2007 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2006.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery, and equipment, are reported in the applicable governmental or business-type activities columns in the Government-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 2,500
Buildings	2,500
Land improvements	2,500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	2,000

Capital assets are depreciated using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment	5-20 years

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenue - Unearned revenues in the School Nutrition Fund are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The revenue will be considered earned when services are provided. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary Funds.

Long-term Liabilities - In the Government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) **Cash and Pooled Investments**

The District's deposits in bank at June 30, 2007 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District's investments are categorized to give an indication of the level of risk assumed by the District at year end. The certificates of deposit are classified as Category 1, which means the investments are insured and are held by the District in the District's name. Certificates are stated at fair value.

At June 30, 2007, the District had investments in Certificates of deposit maturing over one year as follows:

	Fair Value
Certificates of deposit	\$ 51,011

(3) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2007 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	\$ 129,336

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(4) Capital Assets

Capital assets activity for the year ended June 30, 2007 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 116,677	0	0	116,677
Total capital assets not being depreciated	116,677	0	0	116,677
Capital assets being depreciated:				
Buildings	6,724,464	36,734	0	6,761,198
Land improvements	1,196,195	0	0	1,196,195
Machinery and equipment	2,210,990	244,454	156,708	2,298,736
Total capital assets being depreciated	10,131,649	281,188	156,708	10,256,129
Less accumulated depreciation for:				
Buildings	2,318,322	137,226	0	2,455,548
Land improvements	366,319	57,757	0	424,076
Machinery and equipment	1,847,743	135,936	102,573	1,881,106
Total accumulated depreciation	4,532,384	330,919	102,573	4,760,730
Total capital assets being depreciated, net	5,599,265	(49,731)	54,135	5,495,399
Governmental activities capital assets, net	\$ 5,715,942	(49,731)	54,135	5,612,076
Business-type activities:				
Machinery and equipment	\$ 146,002	1,931	2,000	145,933
Less accumulated depreciation	101,502	8,782	1,667	108,617
Business-type activities capital assets, net	\$ 44,500	(6,851)	333	37,316

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 22,183
Support services:	
Administration	2,405
Operation and maintenance of plant	26,261
Transportation	85,087
	<u>135,936</u>
Unallocated depreciation	<u>194,983</u>
Total governmental activities depreciation expense	<u>\$ 330,919</u>
Business-type activities:	
Food services	<u>\$ 8,782</u>

(5) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2007 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 2,555,000	0	250,000	2,305,000	255,000
Revenue bonds	495,000	0	120,000	375,000	125,000
Early retirement	29,571	0	14,786	14,785	14,785
Total	<u>\$ 3,079,571</u>	<u>0</u>	<u>384,786</u>	<u>2,694,785</u>	<u>394,785</u>

General Obligation Bonds Payable

Details of the District's June 30, 2007 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Interest Rates	Bond issue dated May 1, 2004		
		Principal	Interest	Total
2008	2.50 %	\$ 255,000	70,498	325,498
2009	2.75	265,000	64,123	329,123
2010	3.00	275,000	56,835	331,835
2011	3.00	280,000	48,585	328,585
2012	3.10	290,000	40,185	330,185
2013	3.25	300,000	31,195	331,195
2014	3.30	315,000	21,445	336,445
2015	3.40	325,000	11,050	336,050
Total		<u>\$ 2,305,000</u>	<u>343,916</u>	<u>2,648,916</u>

Revenue Bonds Payable

Details of the District's revenue bonded indebtedness are as follows:

Year Ending June 30,	Bond issue dated April 1, 2004			
	Interest Rates	Principal	Interest	Total
2008	2.25 %	\$ 125,000	6,564	131,564
2009	2.25	125,000	3,748	128,748
2010	2.25	125,000	936	125,936
Total		\$ 375,000	11,248	386,248

Early Retirement

The District last offered a voluntary early retirement plan to its certified employees during the 2004-2005 school year. Eligible employees had to be at least age fifty-five and must have completed twenty years of service to the District. Employees had to complete an application which was required to be approved by the Board of Education. The benefit amount was calculated as one-half of the employee's full-time 2004-2005 salary per the salary schedule. Early retirement benefits that were paid during the year ended June 30, 2007, totaled \$14,786.

(6) Property Lease

The District currently has a lease with the City of Goose Lake for rental of rooms for the District's alternative school. Payments are \$700 per month until either the District or the landlord terminates the lease.

(7) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the year ended June 30, 2007, 2006 and 2005. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2007, 2006 and 2005 were \$192,538, \$182,306 and \$177,766, respectively, equal to the required contributions for each year.

(8) Risk Management

Northeast Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any

deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$192,793 for the year ended June 30, 2007 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

NORTHEAST COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN BALANCES -
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2007

	Governmental Fund Types Actual	Proprietary Fund Type Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
Revenues:						
Local sources	\$ 3,870,528	155,801	4,026,329	3,671,106	3,671,106	355,223
Intermediate sources	36,864	0	36,864	7,000	7,000	29,864
State sources	2,777,706	3,479	2,781,185	2,747,813	2,747,813	33,372
Federal sources	115,911	91,572	207,483	195,500	195,500	11,983
Total revenues	6,801,009	250,852	7,051,861	6,621,419	6,621,419	430,442
Expenditures:						
Instruction	3,898,281	0	3,898,281	4,184,476	4,184,476	286,195
Support services	2,001,780	19,143	2,020,923	2,159,174	2,159,174	138,251
Non-instructional programs	2,901	233,517	236,418	256,203	256,203	19,785
Other expenditures	805,971	0	805,971	894,807	894,807	88,836
Total expenditures	6,708,933	252,660	6,961,593	7,494,660	7,494,660	533,067
Excess (deficiency) of revenues over (under) expenditures	92,076	(1,808)	90,268	(873,241)	(873,241)	963,509
Other financing sources, net	615	(333)	282	5,000	5,000	(4,718)
Excess (deficiency) of revenues and other financing sources over (under) expenditures	92,691	(2,141)	90,550	(868,241)	(868,241)	958,791
Balance beginning of year	1,671,501	99,121	1,770,622	1,621,158	1,621,158	149,464
Balance end of year	\$ 1,764,192	96,980	1,861,172	752,917	752,917	1,108,255

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NORTHEAST COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2007

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

OTHER SUPPLEMENTARY INFORMATION

NORTHEAST COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2007

	Special Revenue Funds						Total
	Manage-	Student	Physical	Total			Other
	ment	Activity	Plant and	Special	Capital	Debt	Nonmajor
	Levy		Equipment	Revenue	Projects	Service	Governmental
			Levy	Funds			Funds
ASSETS							
Cash and pooled investments	\$ 195,851	47,475	147	243,473	87,975	13,712	345,160
Receivables:							
Property tax:							
Current year delinquent	2,151	0	1,125	3,276	0	7,327	10,603
Succeeding year	100,000	0	50,104	150,104	0	326,523	476,627
Due from other governments	0	1,717	0	1,717	41,561	0	43,278
TOTAL ASSETS	\$ 298,002	49,192	51,376	398,570	129,536	347,562	875,668
LIABILITIES AND FUND BALANCES							
Accounts payable	\$ 0	5,347	0	5,347	1,390	0	6,737
Deferred revenue:							
Succeeding year property tax	100,000	0	50,104	150,104	0	326,523	476,627
Total liabilities	100,000	5,347	50,104	155,451	1,390	326,523	483,364
Fund balances:							
Reserved for debt service	0	0	0	0	0	21,039	21,039
Unreserved fund balances	198,002	43,845	1,272	243,119	128,146	0	371,265
Total fund balances	198,002	43,845	1,272	243,119	128,146	21,039	392,304
TOTAL LIABILITIES AND FUND BALANCES	\$ 298,002	49,192	51,376	398,570	129,536	347,562	875,668

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NORTHEAST COMMUNITY SCHOOL DISTRICT
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2007

	Special Revenue Funds						Total Other Nonmajor Governmental Funds
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds	Capital Projects	Debt Service	
REVENUES:							
Local sources:							
Local tax	\$ 99,479	0	49,891	149,370	443,023	325,130	917,523
Other	20,331	140,952	0	161,283	2,161	2,792	166,236
Federal sources	0	0	24,848	24,848	0	0	24,848
TOTAL REVENUES	119,810	140,952	74,739	335,501	445,184	327,922	1,108,607
EXPENDITURES:							
Current:							
Instruction:							
Regular instruction	30,858	0	0	30,858	56,506	0	87,364
Other instruction	0	136,268	0	136,268	0	0	136,268
Support services:							
Administration services	4,473	0	0	4,473	0	0	4,473
Operation and maintenance of plant services	46,962	0	24,848	71,810	0	0	71,810
Student transportation	12,796	0	50,000	62,796	17,697	0	80,493
Non-instructional programs:							
Food service operations	1,092	0	0	1,092	0	0	1,092
Other expenditures:							
Facilities acquisitions	0	0	0	0	157,320	0	157,320
Long-term debt:							
Principal	0	0	0	0	0	370,000	370,000
Interest and fiscal charges	0	0	0	0	0	85,858	85,858
TOTAL EXPENDITURES	96,181	136,268	74,848	307,297	231,523	455,858	994,678
EXCESS(DEFICIENCY) OF REVENUES OVER(UNDER) EXPENDITURES	23,629	4,684	(109)	28,204	213,661	(127,936)	113,929
OTHER FINANCING SOURCES (USES):							
Transfers in	0	0	0	0	0	129,336	129,336
Transfers out	0	0	0	0	(129,336)	0	(129,336)
TOTAL OTHER FINANCING SOURCE (USES)	0	0	0	0	(129,336)	129,336	0
NET CHANGE IN FUND BALANCES	23,629	4,684	(109)	28,204	84,325	1,400	113,929
FUND BALANCE BEGINNING OF YEAR	174,373	39,161	1,381	214,915	43,821	19,639	278,375
FUND BALANCE END OF YEAR	\$ 198,002	43,845	1,272	243,119	128,146	21,039	392,304

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NORTHEAST COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
YEAR ENDED JUNE 30, 2007

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Drama	\$ 2,492	3,228	2,809	2,911
Music	0	511	511	0
Cross Country	0	220	220	0
Golf	0	1,093	1,093	0
Activity Cheerleading	302	280	20	562
MS Boys Basketball	0	586	586	0
HS Boys Basketball	1,143	3,739	4,882	0
HS Boys BB Tournament	4,955	13,979	12,506	6,428
MS Football	0	212	212	0
HS Football	2,301	10,960	13,201	60
HS FB Fundraising	481	3,738	3,519	700
Baseball	327	320	647	0
Baseball Fundraising	0	1,989	768	1,221
MS Boys Track	504	390	894	0
HS Boys Track	0	1,441	1,441	0
Boys Track Fundraising	965	5,061	3,724	2,302
MS Wrestling	810	594	1,404	0
HS Wrestling	1,302	4,424	5,457	269
Wrestling Fundraising	392	8,139	7,515	1,016
MS Girls Basketball	0	255	255	0
HS Girls Basketball	0	3,852	3,852	0
HS Girls BB Fundraising	343	1,382	1,305	420
MS Volleyball	0	388	380	8
HS Volleyball	0	2,125	1,955	170
HS VB Fundraising	0	1,250	838	412
MS Girls Softball	0	259	259	0
HS Softball	0	837	837	0
HS Softball Fundraising	1,402	6,015	4,816	2,601
MS Girls Track	0	430	430	0
HS Girls Track	0	7,804	7,804	0
Activity General Activities	0	8,530	8,530	0
Activity Interest Account	0	428	428	0
HS Pop Machine	0	3,087	3,087	0
Post Prom	579	3,773	3,804	548
Student Leadership	242	189	246	185
Spanish Club	0	278	136	142
FBLA	1,302	9,392	8,410	2,284
FTA	2,035	1,726	1,064	2,697
FFA	7,610	21,648	19,032	10,226
MS Student Council	601	71	0	672
HS Student Council	0	1,358	1,111	247
Class of 2007	849	0	849	0
Class of 2008	2,171	0	2,012	159
Class of 2009	1,994	0	451	1,543
Class of 2010	2,519	0	56	2,463
Class of 2011	1,540	3,866	2,912	2,494
Class of 2012	0	1,105	0	1,105
Total	\$ 39,161	140,952	136,268	43,845

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NORTHEAST COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FOUR YEARS

Modified Accrual Basis				
Years Ended June 30,				
	2007	2006	2005	2004
Revenues:				
Local sources:				
Local tax	\$ 2,692,210	2,547,106	2,580,192	2,686,990
Tuition	860,319	713,013	522,446	549,462
Other	317,999	328,816	379,225	267,975
Intermediate sources	36,864	38,159	36,975	31,654
State sources	2,777,706	2,772,517	2,654,881	2,551,781
Federal sources	115,911	106,236	150,752	217,338
Total	\$ 6,801,009	6,505,847	6,324,471	6,305,200
Expenditures:				
Current:				
Instruction:				
Regular instruction	\$ 2,512,909	2,354,686	2,310,146	2,512,182
Special instruction	704,686	612,022	615,999	828,275
Other instruction	680,686	690,736	651,797	545,153
Support services:				
Student services	227,253	209,714	198,822	167,693
Instructional staff services	108,100	138,799	147,828	91,353
Administration services	590,011	608,683	607,246	565,233
Operation and maintenance of plant services	573,790	555,690	464,450	441,993
Transportation services	502,626	446,526	420,152	410,255
Non-instructional programs	2,901	2,663	1,386	774
Other expenditures:				
Facilities acquisitions	157,320	134,943	284,933	949,633
Long-term debt:				
Principal	370,000	360,000	2,940,000	208,000
Interest and other charges	85,858	93,423	263,183	204,897
AEA flow-through	192,793	186,543	185,900	189,565
Total	\$ 6,708,933	6,394,428	9,091,842	7,115,006

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3050

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Independent Auditor's Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards

To the Board of Education of the
Northeast Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Northeast Community School District as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 7, 2008. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Northeast Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Northeast Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Northeast Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Northeast Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Northeast Community School District's financial statements that is more than inconsequential will not be prevented or detected by Northeast Community School District's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Northeast Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item I-A-07 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Northeast Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Northeast Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit Northeast Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Northeast Community School District and other parties to whom Northeast Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Northeast Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



NOLTE, CORNMAN & JOHNSON, P.C.

March 7, 2008

NORTHEAST COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2007

Part I: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

SIGNIFICANT DEFICIENCIES:

- I-A-07 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded, and checks are prepared by the same person.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the District should review its procedures to obtain the maximum internal control possible under the circumstances.

Response - We will continue to review our procedures and implement additional controls where possible.

Conclusion - Response accepted.

- I-B-07 Purchase Orders - We noted during our audit that eight of twenty-three disbursements tested for the Student Activity Fund had no purchase orders. Purchase orders are typically used to document approval prior to the purchase as well as documenting which account will be paying for the invoice.

Recommendation - The District should review procedures in place with regard to use of purchase orders, placing the order and subsequent payment. The District should require purchase orders be completed prior to ordering. With the proper use of purchase orders, the District can ensure that purchases are properly approved and authorized before purchasing.

Response - The District will strive to do a better job in requiring purchase orders for all Student Activity Fund purchases.

Conclusion - Response accepted.

NORTHEAST COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2007

Part II: Other Findings Related to Required Statutory Reporting

- II-A-07 Certified Budget - District disbursements for the year ended June 30, 2007, did not exceed the amount budgeted.
- II-B-07 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- However, during our audit, we noted that certain employees were receiving free lunches from the District's nutrition program.
- Recommendation - The District needs to either discontinue this practice, require the employees to pay for their own lunches or add the expense to the employees' W-2 as additional compensation.
- Response - The District will add the expense to the employees' W-2's as additional compensation.
- Conclusion - Response accepted.
- II-C-07 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- II-D-07 Business Transactions - We noted no business transactions between the District and District officials or employees.
- II-E-07 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-07 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- II-G-07 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
- II-H-07 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- II-I-07 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.

II-J-07 Electronic Check Retention - Chapter 554D.114 of the Code of Iowa allows the District to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The District retains cancelled checks through electronic image, but does not obtain an image of the back of each cancelled check as required.

Recommendation - The District should obtain and retain an image of both the front and back of each cancelled check as required.

Response - The District has requested images of the fronts and backs of all cancelled checks from the bank

Conclusion - Response accepted.